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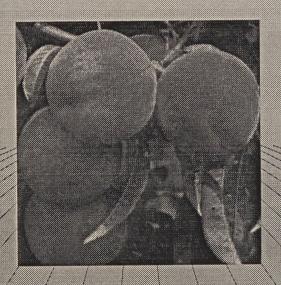
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AGRICULTURAL EASEMENTS AND THE NIAGARA FRUIT BELT: SUSTAINING A UNIQUE RESOURCE



REPORT TO THE MINISTER OF AGRICULTURE AND FOOD CONSERVATION EASEMENT COMMITTEE

AUGUST 1992



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LAUURA VAN DE BOGART

AGRICULTURAL EASEMENTS AND THE NIAGARA FRUIT BELT: SUSTAINING A UNIQUE RESOURCE

August, 1992



WHAT OTHERS HAVE SAID

"It is true that soils suitable for fruit production can be found elsewhere in the province. However, the climate, which is the most important factor restricting large scale fruit production (especially tender tree-fruits) to the Niagara area, cannot be replaced with any degree of assurance. Thus, if the fruit-growing industry of the Fruit Belt disappears, it is not likely to be relocated elsewhere in Ontario" (Ontario Department of Agriculture, 1957): 2.

"If the necessary regional land-use planning does not come in time, the sprawling cities in the Niagara Fruit Belt will destroy one of the most valuable areas of horticultural land on this continent. And if we, as Canadians, permit such to happen, succeeding generations will justly condemn us for being poor stewards of the land which we have inherited" (Kreuger, 1959): 129.

"The Niagara tender fruitlands are a resource that cannot be replaced. Once they are put to urban use, the process will never be reversed" (Mayo et al. Niagara Region Local Government Review, 1966): 22.

"In the future the land, as a factor of production and as the setting for the community, will count more heavily, and not less, in the well-being and prosperity of the area. By writing off the fruitlands we may in fact also undermine the major sources of growth - we may kill the goose that lays the golden eggs" (Niagara Escarpment Study Group, 1968): 8.

"High on the agenda...would be...the desirability and feasibility of the acquisition as 'a national resource' of certain very important farming areas - the Niagara Fruit Belt...which are under such heavy competitive pressure from prospective urban uses that their total demise is predictable" (Gertler and Crowley. Changing Canadian Cities, 1977): 447-8.

"The Niagara fruit belt of Ontario is a unique region within Canada, if not North America. Nevertheless, since the mid 1950's the area devoted to the production of tender fruit crops has been steadily declining, due largely to the continuous pressures of urban expansion. Now, more than 20 years later, the lack of positive action directed towards preserving the Niagara fruit belt, leads one to question the importance Canadians place on threatened and unique agricultural resources" (Simpson-Lewis et al. Canada's Special Resource Lands, 1979): 52.

"The Board accepts these statements in the Guidelines and in the Minister's letter as a determination by the Provincial Government that with respect to the unique agricultural area - good tender fruit and grape lands - in the Niagara Region an important agricultural resource is involved" (Ontario Municipal Board Decision, 1981): 73.

"In an era of world food surpluses and an excess of land under cultivation, tough policies may have to be made regarding which land goes out of production. However, high quality lands such as the Niagara Fruit Belt should not be the ones that go" (Gayler. Paper presented to the House of Commons Standing Committee on Agriculture, 1991): 3.

"Therefore to maintain productivity, it is critical that production is concentrated on the highest quality land. We must continue our efforts to ensure that the quality of the land for agriculture is a major consideration in decisions on land use. More direct action is necessary if the tender fruit industry is to be sustained. Whether or not this occurs depends on societal goals. How important is it to society that we are able to eat freshly picked Ontario peaches rather than depend on imports?" (Miller. Paper presented to the Ontario Agricultural College Conference, 1992): 1.

Letter of Transmittal

August 31, 1992

The Honourable Elmer Buchanan Minister of Agriculture and Food Queen's Park Toronto, Ontario

Dear Minister:

The Conservation Easement Committee is pleased to submit to you this report, <u>Agricultural Easements and the Niagara Fruit Belt: Sustaining a Unique Resource</u>, in fulfillment of the Terms of Reference. The members appreciated the opportunity to work on this very significant project for the benefit of present and future generations of Ontarians.

Neil Smith
Ontario Ministry of Agriculture and Food
Chair

Dick Teather
Ontario Tender Fruit Producers'
Marketing Board

Arnold Lepp Niagara North Federation of Agriculture

Charles Gill Niagara South Federation of Agriculture Joan Ashcroft
Preservation of Agricultural Lands Society

Gracia Janes
Preservation of Agricultural Lands Society

Corwin T. Cambray Regional Niagara

Laurie McNab Regional Niagara Dan Schneider Ministry of Culture and Communications

Philip McKinstry Ministry of Municipal Affairs

Scott Oliver Ministry of Agriculture and Food

Tonu Tosine Ministry of Agriculture and Food

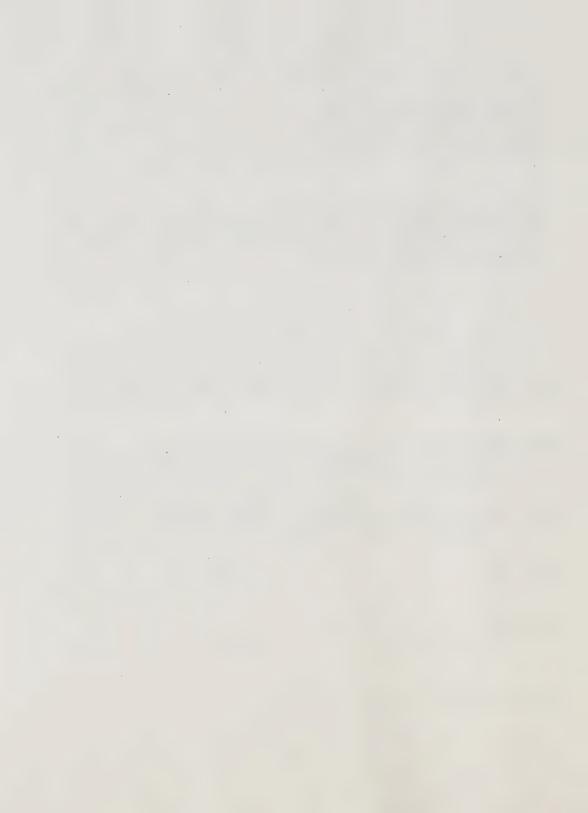


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KEY RECOMMENDATIONS

- That the Province of Ontario implement an agricultural easement program in 1993 or sooner to help protect the unique and irreplaceable tender fruitlands of Niagara.
- That the implementation of an agricultural easement program be undertaken within the framework of effective land use policies in the Regional and local planning documents.
- That in the short-term agricultural easements be acquired under the <u>Ontario Heritage Act</u> until legislative change can be enacted to specifically allow public or private bodies to acquire agricultural easements.
- That the Niagara Agricultural Easement Program apply only to tender fruitlands as shown by the Good Tender Fruit Area designation in the Regional Policy Plan and to nearby land in tender fruit production until a revised Regional Agricultural Land Base Map is included in the Policy Plan.
- That agricultural easement values range between \$8,000 and \$12,000 per acre with growers receiving a downpayment of 50% and the remainder in five equal annual instalments.
- That \$20 million \$3.75 million per year from the Provincial Government and \$250,000 per year from Regional Niagara be made available in the first five years of the Program to acquire easements on 2,000 acres of tender fruitland.
- That the Province and Regional Niagara appoint a Niagara Agricultural Easement Committee as part of the Ontario Heritage Foundation to administer the Program in the shortterm.
- That a Niagara Trust be established in the long-term to administer the Program including a fund consisting of private sector contributions and possible matching government grants.
- That all levels of government consider the effects of their activities and programs on Provincially-significant agricultural lands such as the Niagara tender fruitlands before decisions are taken.
- That Regional Niagara Council withdraw the economic assistance policies for tender fruit growers which are part of proposed Regional Policy Plan Amendment 60.
- That Niagara's tender fruit industry and the Provincial Government develop a comprehensive strategy to increase the competitiveness of the industry.





Background

The future of the Niagara Fruit Belt, Canada's preeminent peach growing area, is in grave doubt. The unique and irreplaceable Niagara tender fruitlands are under continuous development pressure. Traditional planning tools alone have proven to be less than effective achieving only temporary pauses, against the relentless forces of development.

As illustrated by the initial quotations, the importance of the Niagara Fruit Belt has been long recognized. Niagara produces 90% of Ontario's and 70% of Canada's peaches. Also, the scenic orchards are valued for their contribution to Ontario's tourism industry. Nevertheless, tender fruit growers are facing difficult economic conditions.

Currently, the Ministry of Agriculture and Food is developing a new Agricultural Land Protection Program for Ontario. A variety of farmland preservation approaches in use elsewhere in Canada and the United States are being examined for potential application in Ontario.

One alternative is the purchase of agricultural easements. There has been considerable interest and work on this approach in the Niagara Region.

In this context, the Honourable Elmer Buchanan, Minister of Agriculture and Food, appointed a Conservation Easement Committee. Members of the Committee represent Niagara farm organizations, the Preservation of Agricultural Lands Society, and Provincial and Regional Governments.

The Report

The Conservation Easement Committee's report examines agricultural easements and develops a program for the long-term protection of Ontario's best tender fruitlands.

An easement program would be an innovative approach to preserving agricultural land in Ontario. Agricultural easements, however, have been in use in the United States for over 15 years. Drawing on the U.S. experience, the major pros and cons of agricultural easements are identified in Chapter II. The Committee examined the differences between the Ontario and U.S. context in order to determine the applicability of agricultural easements here.

Chapter III discusses the reasons why agricultural easements are needed to help protect Niagara's tender fruitlands.

An Agricultural Easement Program for the Niagara Fruit Belt is developed in Chapter IV. Various options are considered in designing the following elements of the Program:

- the legal framework
- eligibility requirements
- easement valuation
- administration
- program financing, and
- other program details.

Governments' other activities and programs must be considered when developing a new approach to farmland preservation. The approach must be compatible with and reinforce the existing agricultural land use planning framework at the Provincial and municipal level and with farm assistance programs. Chapter V examines the relationship between governments' other activities and programs and an agricultural easement program.

The Report recommends that governments take action to implement the Niagara Agricultural Easement Program in 1993 or sooner. To achieve that objective, specific steps must be taken as described in Chapter VI.

Key Findings

- The purchase of agricultural easements could be made legally possible in Ontario.
- Based on the U.S. experience, the four major advantages of easement programs are:
 - farmland protection is more permanent,
 - the farm community generally supports this farmland preservation approach,
 - farmland is priced closer to its value for agricultural use, and
 - direct financial assistance is provided to the farmer.

The disadvantages include:

- the cost of an easement program is high,
- coverage may not be comprehensive,
- other measures are needed to preserve farmland, and
- farmers receive only a one-time cash benefit.
- Overall, the advantages of this farmland preservation approach are compelling enough, and the problems so threatening to this unique renewable resource, to recommend the implementation of an agricultural easement program for Niagara's tender fruitlands.

- An agricultural easement program could assist in the protection of a specific unique and irreplaceable resource, such as the Niagara fruitlands, but could not be a widespread tool because of its costs.
- There would be pressures to establish easement programs for other resources, although most people in the Province would agree the Niagara tender fruitlands are the logical top priority.
- There are potentially high legal, planning, and social costs for attempting to protect the Niagara tender fruitlands without an easement program or further financial programs for area growers.
- To be effective, an agricultural easement program supplements rather than replaces planning policies and zoning.
- The existence of an agricultural easement program does not eliminate the need for all four levels of government to have other supportive programs and policies.
- The probability of retaliatory U.S. trade action on agricultural easements is small. With the low volume of Canadian tender fruit exports to the U.S., the American industry is unlikely to be injured. Second, the U.S. did not identify agricultural easements as a trade distorting subsidy. Third, similar programs exist in the United States.

Proposed Niagara Agricultural Easement Program

The Conservation Easement Committee has proposed the following Program to protect the Niagara tender fruitlands.

Program Goals

- To sustain Ontario's unique and irreplaceable Niagara tender fruitlands for future generations.
- To contribute to the long-term viability of Niagara's tender fruit industry.
- To reinforce governments' actions and programs supporting the preservation of these unique agricultural lands.

Legal Framework

Easements would be purchased on agricultural lands under the Ontario Heritage Act. Subsequently, changes to the Ontario Heritage Act or new legislation may be required to remove any doubt over the acquisition and enforcement of agricultural easements by the Ontario Heritage Foundation as well as other public or private bodies.

Eligibility Requirements

The Program would apply to both tender fruitlands as shown in the Regional Policy Plan and nearby lands in tender fruit production. Farm parcels would have a minimum of five acres of tender fruit producing orchards in peaches, apricots, cherries, pears, and plums which have been in production for the preceding three years. The farm operation would have a minimum gross farm income of \$15,000 from tender fruit production.

Program Details

- Tender fruit growers would receive between \$8,000 to \$12,000 per acre for an agricultural easement. Half of the easement value would be paid in the first year with the remainder being paid in equal annual instalments over five years. A point system would determine the specific easement value for individual parcels based on their characteristics.
- Applications for easement purchase would be ranked, if necessary, in order of priority. Factors which should be considered include farm size and the degree of threat of conversion.
- Perpetual easements would be purchased. Although the easement would apply to the whole parcel, the value of the easement would exclude one acre of land for any farm residences present.
- Only agricultural uses like barns and farm help houses without a severance and agriculturally-related uses such as value-added processing activities located on the farm and fruitstands would be permitted. The uses which are permitted must comply with the Regional, local municipal, and Niagara Escarpment Plans and Provincial policies and plans.
- With the exception of minor boundary adjustments and farm amalgamations, no severances would be permitted.
- Permitted activities would have a minimal effect on the quantity or the quality of the soil.
- In the short-term, the Program would be administered by a Niagara Agricultural Easement Committee, as part of the Ontario Heritage Foundation. The Foundation, a nonprofit agency of the Ministry of Culture and Communications, has considerable experience in acquiring conservation easements.
- In the long-term, a Niagara Trust, a locally-based nonprofit agency, would be established to administer the Niagara Agricultural Easement Program and receive donations.

Cost

The cost of the Program to governments is estimated to be about \$60 to \$70 million - \$10,000 per acre on average with about 6,000 to 7,000 acres participating. In the first five years of the Program, easements on 2,000 acres would be purchased at a cost of \$20 million (2,000 acres at \$10,000 per acre). In the fifth year, the Program would be reviewed and any necessary changes would be implemented.

Financing

The costs of the Program would be shared by the Provincial Government and Regional Niagara. The Committee recommends that the Province allocate \$3.75 million per year and the Regional Municipality of Niagara contribute \$250,000 per year for the first five years of the Program.

Implementation

The first agricultural easements are to be purchased early in 1993 or sooner. Thirteen steps are set out to achieve this objective.



CHAPTER I: PURPOSE AND SCOPE

In April of 1992, the Ministry of Agriculture and Food released a discussion paper on agricultural land use protection options for public comment. The purpose of the paper and consultation is to obtain ideas and opinions for a new agricultural land protection program for Ontario. Options currently in use in Ontario, elsewhere in Canada, and in the United States are included in the discussion paper.

One option is that of conservation easements that had already been under consideration for the unique but disappearing Niagara Fruit Belt. The acquisition of partial interests in property, known as easements, has a long history dating back to Roman times (Buckland, 1987). The more familiar use of easements is in the acquisition of rights-of-way for infrastructure such as hydro lines and pipelines.

Easements also can be used as a means of preserving important resources which benefit the public-at-large including scenic and open spaces. The latter are known as conservation easements. For example, the Ontario Heritage Foundation, a nonprofit agency under the Ministry of Culture and Communications, acquires conservation easements to protect heritage structures like historically-significant homes and bridges, archaeological resources, and natural and scenic features.

According to Diehl and Barrett (1988), conservation easements are classified according to the type of resource (historic, agricultural, and scenic) which is being protected. For example, an agricultural easement is a legal agreement between a landowner and a government or nongovernment agency which limits the use of farmland to agriculture either for a specified period of time (a term easement) or for an unlimited period of time, in perpetuity, (a perpetual easement). The farmland owner receives financial or other incentives (e.g. tax benefits) in compensation for signing the agreement. The easement is registered on title and is binding on succeeding landowners.

The Honourable Elmer Buchanan, Minister of Agriculture and Food, invited representatives from farm organizations, public interest groups and government to participate on a Conservation Easement Committee. The purpose of the Committee was to examine the applicability of agricultural easements and to develop an easement program for the protection of the unique tender fruitlands of Niagara. A copy of the Committee's Terms of Reference is contained in Appendix I.

There has been considerable interest and work on agricultural easements in the Niagara Region. The Honourable Elmer Buchanan's 1991 Task Force on Agricultural Finance and Farmland Issues in the Niagara Tender Fruit Industry recommended an agricultural easement program as one of its four Priority 'A' or critical issues.

This report embodies the Committee's findings. Included in the report is a recommended agricultural easement program for Niagara's tender fruitlands.



CHAPTER II: AGRICULTURAL EASEMENTS: THE ONTARIO CONTEXT

Although programs exist in the United States, the use of agricultural easements would be an innovative approach to preserving agricultural land in Ontario (Regional Niagara, 1990 and Bryant and Johnston, 1992). Determining the applicability of agricultural easements here requires an assessment based on the Ontario context. Differences in the legal and land use planning traditions between Ontario and U.S. states must be considered.

A. THE ONTARIO SCENE

Today, in Ontario, there are healthy discussions and worthwhile proposals around the concepts of sustainable development, the ecosystem, stewardship, and cumulative impacts. Notable examples include: the Ontario Round Table, the Royal Commission on the Future of the Toronto Waterfront's report Regeneration, the Commission on Planning and Development Reform in Ontario, GTA 2021 — The Challenge of Our Future from the Office for the Greater Toronto Area, and the Provincial environmental guidelines for the Oak Ridges Moraine. These concepts are important for the well-being of present and future generations.

And yet, while symbolizing these concepts, the Niagara Fruit Belt stands out because it is a national resource and has been at the forefront of planning and resource issues for decades. Hundreds of reports and articles have been written about the plight of the Fruit Belt which is under such heavy competitive pressure from prospective urban uses that its future is questionable. Compounding this development pressure are the economic hardships now facing Niagara tender fruit growers who have long been advocates of preserving their unique resource. There is an uncertain future because of heightened U.S. competition as well as recent hail damage.

If these pervasive development pressures are to be counteracted, then traditional planning tools need to be supplemented. Agricultural easements provide this much needed support.

B. HISTORY OF EASEMENTS IN ONTARIO

Easements, as a legal mechanism, are not new. They have often been used to secure a right-of-way or to allow construction of public facilities such as transmission lines.

Easements under a specific statute, like the <u>Ontario Heritage Act</u>, have legal advantages over common law easements or covenants. One of the most difficult aspects of common law easements is the need for the holder of the easement to own other land in the vicinity that would be benefited by the easement. Statutory easements

remove this limitation and also allow for the inclusion of "positive" obligations as well as "negative" restrictions.

Examples of easements acquired under common law in Ontario are limited because of these weaknesses. A few conservation authorities have obtained easements under common law for trails, flood easements, and access to a wetland. The Bruce Trail Association has used trail easements to secure a route.

The Province recognized the broader value of easements for heritage conservation purposes with the passage of the Ontario Heritage Act in 1975. Under the Ontario Heritage Act, the Ontario Heritage Foundation and local municipalities (built heritage only) may enter into conservation easements with property owners for the conservation, protection and preservation of heritage in Ontario. The easement is a voluntary legal agreement in which the owner retains title and use of the property while the Foundation ensures that its significant heritage features are protected in perpetuity. The easement is registered on title and applies to present and future owners but does not restrict the owners from selling, leasing, or donating their property.

Conservation easements are increasingly being used creatively in Ontario for a variety of important public purposes. The Foundation holds easements on over 140 properties throughout the Province and the list is growing. The easements cover natural heritage properties, archaeological sites, bridges, and significant buildings. The easements on natural areas may cover a substantial amount of land such as the 300 acres at Misery Bay, District of Manitoulin, and 83 acres at the Rockridge Farm, Bruce County.

C. EVALUATION OF THE U.S. EXPERIENCE WITH AGRICULTURAL EASEMENTS

Agricultural easement programs exist in over 10 states and 70 local communities in the United States (Riggle, 1991-92). Interest in this approach to farmland protection has grown steadily, particularly in the densely populated Northeastern States, since the first program began in Suffolk County, New York in 1974. Table 1 shows the status of agricultural easement programs in the Northeastern U.S. as of December 20, 1991.

Although the design of U.S. agricultural easement programs varies, there are some features which are common to most or all:

All dollar figures in this section are expressed in U.S. dollars.

Table 1
Status of State-Level Agricultural Easement Programs
in the Northeastern United States

State	Year Began	Number of Farms	Acres	Expenditures	Funds Remaining	Funding Source
Connecticut	1978	133	19,064	\$53,772,981	\$9,027,019	Bonds
Maine	1990	1	307	380,000	7,500,000	General Appropriations; Transfer Tax
Maryland	1977	677⁵	98,552	97,212,751	7,000,000	General Appropriations; Transfer Tax; County/Local Match
Massachusetts	1977	295	28,214	75,000,000	5,000,000	Bonds
New Hampshire	1979	28	2,167	3,000,000	554,251	General Appropriations
New Jersey	1981	84	11,792	73,447,552	26,552,448	Bonds; County/Local Match
Pennsylvania	1989	95°	11,121	24,900,000	75,100,000	Bonds; County/Local Match
Rhode Island	1982	25	1,850	11,360,000	2,640,000	Bonds
Vermont	1987	58	16,068	12,561,075	2,260,471	General Appropriations; Transfer Tax

- Maine and Vermont are multipurpose land acquisition funds.
- Recorded by easements.
- Includes farms approved for purchase.

Source: American Farmland Trust, 1991-1992.

- Participation is voluntary.
- Farmland remains in private ownership. The landowner retains all of the remaining rights (e.g., to sell, lease, mortgage, and control access) and obligations (e.g. maintenance) associated with the land.
- Typically, the maximum value of the easement is calculated by subtracting the land's value for agricultural use (after the easement) from its fair market value (before the easement). This value is usually determined through one or more real estate appraisals.
- Farmland selection criteria are used to determine whether a particular farmland property is eligible. Not all farmlands can or should be acquired at least in the short-term. Points are assigned based on a variety of weighted factors such as agricultural capability (e.g. soil quality, degree of threat of conversion to nonagricultural uses, cost, and proximity to other easement-protected lands). Applications with the highest number of points are purchased first.

 Most programs are funded by government-issued bonds. Land transfer taxes, agricultural land conversion and other taxes as well as general appropriations have been used to finance agricultural easement programs.

C.1 Cons and Pros of Agricultural Easements Based on the U.S. Experience

A review of mainly U.S. literature revealed both advantages and disadvantages of agricultural easement programs. Some are related to the techniques which are used as part of an easement program (e.g. real estate appraisals to determine the value of the easement). Others are more general to this approach to farmland preservation.

The key advantages and disadvantages of agricultural easements based on an extensive literature review are discussed below.

C.2 Major Disadvantages of U.S. Agricultural Easement Programs

Based on the American experience, the four major disadvantages of agricultural easement programs are:

- · the cost of an agricultural easement program is high,
- coverage may not be comprehensive,
- other measures are required to preserve farmland, and
- farmers receive only a one-time cash benefit.

a) Cost

In U.S. literature, the most frequently cited disadvantage of an agricultural easement program is its cost (Atash, 1987; Bryant and Johnston, 1992 and many others). Between 1977 and 1991, agricultural easements in the United States on average have cost about \$2,000 per acre (American Farmland Trust, 1991-92). This national average conceals a wide range in easement values. For instance, agricultural easement values averaged \$184 per acre in Lancaster County, Pennsylvania. On the other hand, one easement was purchased at \$17,083 per acre in Monterey, California. Easement values also can vary dramatically within a single jurisdiction. In King County, Washington, for instance, easements ranged from \$480 to \$19,000 per acre (Bair, 1989).

The most significant factor influencing the price of the easement is what one can do with the land (potential development value) based on zoning regulations. The greater the development pressure, the higher the value of the agricultural easement (Coughlin and Keene, 1981).

b) <u>Comprehensiveness</u>

Second, the American experience reveals that coverage may be incomplete and ineffective because of the voluntary nature of the program and its cost (Anderson and Richmond, 1991; Atash, 1987, Buckland, 1987 and others). Scattered coverage may increase development pressures if agricultural land use policies allow some development nearby. Farmlands with easements provide permanent open space which make the agricultural area more attractive for urban uses (Dunford, 1981).

In some cases, coverage problems stem from a desire to increase the political acceptability of the program by selecting applications based on geographic location (Coughlin and Keene, 1981). To counteract this problem, Suffolk County, New York is now emphasizing infilling (Daniels, 1991b). One criterion which is used to identify and rank farms for easement purchase is proximity to other easement-restricted farmlands (Lancaster County Pennsylvania Agricultural Preserve Board, 1989).

While this problem can be reduced, it can never be completely eliminated because of the voluntary nature of the program. For instance, Connecticut has had difficulty attracting participants from one area of the State with high development values (Schnidman et al., 1990).

c) Other Measures are Required to Preserve Agricultural Land

One of the recurring themes in U.S. literature is that agricultural easements are not a panacea. There is no guarantee that agricultural land will continue to be farmed if economic conditions are unfavourable or if urban uses are permitted nearby (Schnidman et al., 1990; Daniels, 1991b; Freedgood, 1991 and King, 1988). In an agricultural easement program, farmland owners are not required to farm their land (Dunford, 1981 and King, 1988). Other programs are required to ensure farmland protection (American Farmland Trust, 1988a; Coughlin and Keene, 1981; Daniels, 1991b; Freedgood, 1989 and 1991 and others).

d) Farmers Receive Only A One-Time Cash Benefit

In return for signing an agricultural easement, farmers receive financial compensation. The total cash benefit, whether received in a lump sum or instalments, is paid by government only once. Thus, this Program will be of cash benefit to today's farmers. As a result, other farm financial assistance programs continue to be required now and in the future.

C.3 Major Advantages of U.S. Agricultural Easement Programs

The four major advantages are:

• farmland protection is more permanent,

- the farm community generally supports agricultural easement programs,
- farmland is priced closer to its value for agricultural use, and
- direct financial assistance is provided to farmers.

a) Permanency of Farmland Protection

One of the main advantages of agricultural easements is the permanency of farmland protection (Atash, 1987; Diehl and Barrett, 1988; Coughlin and Keene, 1981 and many others). In the U.S. agricultural easements are perceived to be an effective or the most effective long-term method of farmland preservation (Freedgood, 1991; American Farmland Trust, 1988a; Nelson, 1990a/b; Rickard, 1986 and Schnidman et al., 1990).

Unlike the more malleable zoning by-laws which are subject to change and are dependent on political commitment for enforcement, perpetual easements allow for the use of farmland for agriculture for an unlimited period of time. Although some easement programs have reversion clauses which allow the farmland owner to repurchase their easement at its current value, strict requirements (e.g., multiple approvals and public referendums) make the release from an easement very difficult.

b) <u>The American Farm Community Supports Agricultural Easement</u> Programs

Generally, the farm community in the U.S. has supported agricultural easement programs (American Farmland Trust, 1988a; Freedgood, 1991 and Atash, 1987). Easements are more acceptable to American farmland owners than zoning (Daniels, 1991b). As a result, the number of applicants frequently exceeds available funding (Freedgood, 1991; State Agricultural Development Committee, 1988 and Conaway, 1987).

A survey of farmers who chose to participate in the Massachusetts and Connecticut easement programs (referred to as purchase of development rights (PDR) programs) revealed positive attitudes towards this approach to farmland preservation:

- "PDR is a good idea, and should be adopted nationally." (85%)
 - "PDR has had a positive effect on the future of agriculture in my area." (79%)
 - "PDR makes it possible to keep land in agricultural production." (91%)

- "PDR has had a positive effect on my ability to plan for the future." (60%)
- "PDR represents a viable alternative to the sale of land out of agricultural use." (87%). '2

Despite concerns over the length of the process and the amount of money received, over 70% of the survey respondents indicated that they would participate if given the opportunity to make their choice over again (American Farmland Trust, 1988a/b).

c) Farmland is Priced Closer to its Value for Agricultural Use

American agricultural easement programs attempt to address the differences between urban and agricultural land values which ultimately lead to the loss of farmland (Anderson and Richmond, 1991). With the speculative value removed, the price of easement-restricted farmland is reduced and stabilized making farming more economical, particularly for beginning farmers (Barnes, 1981; Coughlin and Keene, 1981 and others).

d) <u>Direct Financial Assistance is Provided to Farmers</u>

Agricultural easements turn equity into cash which farmers can use to invest, reinvest, reduce debt or retire (American Farmland Trust, 1987 and 1988a/b; Derr, 1988 and many others). Massachusetts and Connecticut easement participants indicated in a survey that all or part of their easement money went toward:

- General Savings and Investment (54%)
- Income Taxes (50%)
- Reinvesting in the Farm Operation (46%)
- Reducing Farm Debt (45%) (American Farmland Trust, 1988a/b).

This direct cash assistance potentially will be available to farmers as long as eligible farmlands remain outside of the program. The availability of farmland at prices closer to its agricultural value is the principal benefit to future farmers.

D. EASEMENTS NOT "DEVELOPMENT RIGHTS"

In order to understand the concept of an agricultural easement, some understanding of the law of real property is desirable. Real property is best understood in terms of a bundle of rights. The owners of a property in fee simple hold all the rights and can

American Farmland Trust. <u>Protecting Farmland Through Purchase of Development Rights: The Farmers' Perspective</u>. (Northampton, Massachusetts: American Farmland Trust, 1988): 13.

retain or dispose of these rights at their discretion. The owners can sell or bequeath the parcel of land giving up all rights. Alternatively, one or more of these rights can be relinquished when an easement is placed on title.

Seen in this light, it is clear that agricultural easements are not synonymous with development rights. In Canada, development rights are vested in the Crown but we may still have agricultural easements as we have seen with conservation easements. The purpose of the extensive review of American experience contained in this report is to learn from it while recognizing the differences.

In designing the Niagara Agricultural Easement Program, the Conservation Easement Committee has tried to avoid any implication that development rights are being purchased. For example, real estate appraisals are not recommended as a means of valuing agricultural easements. Real estate appraisals usually are used in the United States to measure the difference between a land's fair market value and its value for agricultural use.

E. APPLYING AGRICULTURAL EASEMENTS IN THE ONTARIO CONTEXT

Like other farmland preservation techniques, agricultural easements have both advantages and disadvantages. In U.S. program evaluations and assessments of the approach, the advantages are considered to outweigh the disadvantages (American Farmland Trust, 1988b; Schnidman et al., 1990; Daniels, 1991b and Peters, 1990).

The merit of this approach is demonstrated by the persistence of many U.S. easement programs as well as the introduction of new ones despite the current recession. The American experience shows that the key advantage of agricultural easements is more permanent protection of the resource base while providing some financial assistance to the farmer.

The legal and planning frameworks in Ontario are different than in the U.S., as are the support programs for agriculture. As a result, direct comparisons cannot be made. However, many of the major advantages and disadvantages of agricultural easement programs are likely to be similar in Ontario.

The following four questions need to be addressed when considering an agricultural easement program in Ontario:

The purchase of agricultural easements is an expensive proposition that in all likelihood the taxpayer will have to bear. These high costs will result in relatively small acreages of easements being purchased. Is the cost warranted?

- Will the purchase of agricultural easements in a specific geographic region of the Province result in demands for easements to be purchased on other agricultural lands or on other resource lands subject to strict planning controls (e.g. lands in the Niagara Escarpment, Oak Ridges Moraine, wetlands, and the Niagara grapelands)?
- 3. Will official plan policies and planning controls be less effective without easement programs in place?
- 4. Will an easement program fulfill its intent of protecting an unique agricultural resource in Ontario?

There are no definitive answers to these questions. The Committee spent many hours debating these questions and could not come to a consensus on all of the questions. However, the Committee did agree that:

- The purchase of agricultural easements could be made legally possible in Ontario.
- An agricultural easement program could assist in the protection of a specific, unique and irreplaceable resource, such as the Niagara fruitlands, but could not be a widespread tool because of its cost.
- There would be pressures to establish easement programs for other agricultural and non-agricultural resources, although most people in the Province would agree the Niagara fruitlands are the logical top priority for the program.

There are potentially high legal, planning, and social costs for attempting to protect the Niagara tender fruitlands without an easement program and further financial programs for area growers:

- Lengthy and costly planning battles through the Ontario Municipal Board over changes from orchards to development.
- Uncertainty about the future of the Niagara Fruit Belt. Facing an uncertain future, Niagara tender fruit growers are unlikely to make the necessary capital investments in their operations.

- Social costs arising from the gradual attrition of tender fruit growers through financial hardship.
- The direct loss of farmgate sales and jobs as well as in related food processing and agricultural supply industries. In 1990, sales of Niagara tender fruit totalled \$36 million.
- Reduced tourism revenues which are important to the Regional economy and another source of income for the grape and wine industry and other sectors of agriculture. Tourists come to Niagara to see the blossoms in the springtime; buy fresh fruit at roadside fruitstands; to pick their own fruit; visit vineyards and cottage wineries; or simply to enjoy the rural landscape as part of the experience of visiting other tourist attractions.
- Neglected tender fruit orchards which will spread disease to fruit crops. Abandoned orchards also are less attractive to tourists.
- Loss of rural way-of-life which has existed for generations.
- Continuing pressure for development which requires government expenditures for services.
- Greater dependency on foreign sources for our food resulting in a loss of control over prices and supplies.
- A negative impact on Ontario's trade balance with the United States as imports replace domestic tender fruit supplies.

The potential benefits of the Niagara Agricultural Easement Program are numerous and compelling. An easement program could:

- Increase the permanency of farmland preservation by supporting protective municipal and Provincial agricultural land use policies.
- Provide some direct cash benefits to growers, albeit a one-time grant.
- Support other sectors of the agricultural and the tourist industries.

- Result in farmland prices which more closely reflect their value for agricultural use.
- Bolster the farm community by reducing uncertainties about the future of their industry.

To be effective it must be made clear that an agricultural easement program supplements rather than replaces planning policies and zoning.

F. TRADE AND TAX IMPLICATIONS

F.1 Trade

"My interpretation of them (GATT proposals) is that payments for easements would be fine as long as they provided support for net incomes, addressed out of pocket expenses, or if more generous, were not related to the production of specific commodities."

John Girt of John Girt and Associates

One last consideration involves trade. In recent years, increased attention has been paid to government subsidies to agriculture. The negative effects of the international grain trade wars have made it imperative for countries to reach an agreement on agricultural subsidies. Through the Uruguay Round of negotiations, the General Agreement on Tariffs and Trade (GATT) is attempting to reach an agreement among its member-nations to reduce trade distorting (amber) agricultural subsidies.

Domestically, Canada signed the Canada-U.S. Trade Agreement (CUSTA) in 1989. Although not prohibiting the use of subsidies, the CUSTA eliminates tariffs between the two countries over a 10-year period. Currently, negotiations are underway on a North American Free Trade Agreement (NAFTA).

In this context, any government program for agriculture will be scrutinized. Thus, an easement program must be designed to minimize the risk of countervailing duties.

Programs which are available to all commodity groups and regions, and apply uniform subsidy rates have been found not to be countervailable. In addition, programs should not distort production or provide price support to producers.

While an agricultural easement program for Niagara's tender fruitlands is commodity and region specific, the probability of U.S. trade action is low. Before countervailing duties can be imposed, the U.S. must prove that imported Canada tender fruit is causing injury to domestic producers. With the low volume of

Canadian tender fruit exports to the U.S., the American industry is unlikely to be injured. Second, the existence of agricultural easement programs in the U.S., including some tender fruit-producing states (e.g. New Jersey), also may reduce the likelihood of U.S. trade action. Third, the U.S. did not identify agricultural easements as an amber agricultural subsidy in its GATT subsidy reduction offer of March, 1992.

F.2 Capital Gains Taxes

The payments qualifying tender fruit growers receive for agricultural easements will have income tax implications. Easement payments involve a capital asset (land) and are subject to capital gains taxes.

Over their lifetimes, farmers have a cumulative, maximum capital gains tax exemption. Full-time farmers, who earn more from farming than all other sources of income, have a lifetime \$500,000 capital gains tax exemption. There are two exemption limits for part-time farmers depending on when they purchased their farm. Part-time farmers who purchased their land prior to June 17, 1987 have a \$500,000 capital gains tax exemption. Part-time farmers who purchased their lands after that date have only a \$100,000 lifetime capital gains tax exemption.

Overall, the income tax implications of an agricultural easement program will vary from grower to grower. Based on the existing capital gains tax exemptions, agricultural easement payments will have greater implications for part-time growers who purchased their lands after June 17, 1987, for growers with larger land parcels who will receive a higher easement payment, and for growers who have claimed capital gains tax exemptions in the past.

Conclusion

An agricultural easement program is applicable in the Ontario context. The potential advantages of an easement program are compelling enough to institute this approach to a threatened unique but limited agricultural resource in Ontario.

CHAPTER III: WHY AGRICULTURAL EASEMENTS FOR THE NIAGARA TENDER FRUITLANDS?

The tender fruitlands of Niagara have long been recognized both by experts and the public as a unique and irreplaceable resource which should be preserved for the benefit of all residents of Ontario. These lands support an important industry and a way of life in Niagara.

A thin, fragile resource hugging the south shore of Lake Ontario, the tender fruitlands represent only 0.1% of Ontario's agricultural land base. However, this small size masks their significance. These fruitlands represent 87% (8,150 acres) of Ontario's peach acreage as well as more than 70% of its cherry, pear, plum, and prune acreage.

Niagara has a special combination of deep, sandy soils, a moderate climate and microclimatic conditions created by the interaction of the Niagara Escarpment and Lake Ontario. These superior climatic conditions considerably reduce the potential for crop damage. Not surprisingly, Niagara produces close to 90% of Ontario's and 70% of Canada's peaches (Ontario Ministry of Agriculture and Food, 1991b and Gibberd et al., 1991).

Only two other less suitable areas in Canada are capable of commercial tender fruit production: the Kent-Essex area of southwestern Ontario and the Okanagan Valley in British Columbia (Simpson-Lewis et al., 1979). However, both of these areas have limited potential for assuming a greater role in Canadian peach production (the major tender fruit crop).

For example, expanded peach production in the Kent-Essex area is unlikely. Mercier and Chapman's study of peach climates in Ontario revealed that the Kent-Essex area has a higher probability of suffering weather-related damage. Later references clearly establish the climatic superiority of the Fruit Belt for tender fruit production (Brown and Wyllie, 1980; Kreuger, 1977; Simpson-Lewis et al., 1979 and Wiebe, 1976). A Federal study concluded that in Kent and Essex Counties:

"It seems unlikely that these farmers would change from the reliability of these cash crops (vegetables) to undertake the more hazardous and intricate business of tender fruit production" (Simpson-Lewis et al., 1979): 52.

The tender fruitlands and Niagara's tourism industry are inextricably linked. In the spring, visitors come to see the colourful display of fruit blossoms. Tourists also come to sample Niagara's high quality, fresh fruit at a fruitstand or take a drive in the countryside. The orchards complement, and are complemented

by, the extensive vineyards and wine industry found here as well as other tourist attractions.

This very special area, however, has been subjected to extraordinary stress. Over one third, possibly closer to one half, of the tender fruitlands has been urbanized. In the last few years, there has been the additional pressure for development from growers who are experiencing continuing and increasingly severe financial hardship. This situation is the result of a combination of factors such as weather disasters, steadily increasing costs, stagnant prices, and a high debt load as a result of high land costs.

There also is continuing uncertainty as to the future of the commercial tender fruit industry which generated \$36 million in sales in 1990 (Ontario Ministry of Agriculture and Food, 1991b). Agriculture is the Region's fourth most important industry (Regional Niagara, 1989).

As a last resort, Regional Niagara has proposed policies to allow qualifying tender fruit growers to apply for severances for economic assistance and to downsize fruit farms to 20 acres (or less). The proposed downsizing policy, which is currently under review by a Provincially-appointed Committee, would only assist a few growers while further fragmenting the land base. Pressures for urban services and urban-rural conflicts would grow, ultimately leading to urbanization of the tender fruitlands.

In contrast, an agricultural easement program would provide a much more certain future for the tender fruit industry by increasing the permanency of farmland protection. It would also enhance a strong Regional land use policy as growers would have an option of placing an easement on their land in return for financial compensation. Regional Niagara has indicated a willingness to withdraw its proposed tender fruit assistance policies if an easement program is introduced as part of a comprehensive strategy to increase the competitiveness of Niagara's tender fruit industry. An easement program also would support tourism in Niagara and would assist in maintaining valued open space.

For its part, the farm community has accepted easements as a realistic alternative to land fragmentation and as a method of bolstering the tender fruit industry. Their support rests also in the knowledge that the land will still belong to them and their heirs and that they will have the stability of long-term planning for agriculture, knowing that the land base is not threatened by urbanization. Additionally, the use of easements will indicate a firm commitment to agriculture thereby helping growers to buy farmland at prices closer to its agricultural value. Unreasonable levels of debt are not incurred.

Environmentalists too, promote the approach as a method of preserving the land and the industry. Both are at considerable

risk because of the current economic crisis. They recognize also that the cost of an easement is small in comparison with other public programs and with the considerable direct and indirect benefits (e.g. farm and tourist industry jobs) of preserving the fruitlands. These benefits far outweigh the uncertainty and risk of land preservation solely through traditional land use planning methods. They see this as a window of opportunity to protect a unique and irreplaceable natural resource.

This concept is one that has received broad support from the key players in Niagara: farm organizations, Regional planners, local politicians, and the general public. Broad ranging support is quite unusual in resource preservation. And yet, it is understandable. Nowhere in Ontario is there land quite like Niagara with such a renowned history of tender fruit production and natural beauty. This land is considered by the vast majority of the public to be irreplaceable. The Program described in this report provides the opportunity for the Province to act quickly and decisively to advance the public good with broad public support.

This would be a positive and farseeing action, fully in the spirit of the Brundtland Report, <u>Our Common Future</u>, and other World and Provincial initiatives such as the protection of the Niagara Escarpment by Ontario and as a Biosphere Reserve by the United Nations.

Recommendations

- That the Province of Ontario implement an agricultural easement program to help protect the unique and irreplaceable tender fruitlands of Niagara.
- That the implementation of an agricultural easement program be undertaken within the framework of effective agricultural land use policies in the Regional and local planning documents.



CHAPTER IV: AN AGRICULTURAL EASEMENT PROGRAM FOR THE NIAGARA FRUIT BELT

A. PROFILE OF NIAGARA'S TENDER FRUIT INDUSTRY

In 1991, 703 farms in the Niagara Region reported 12,813 acres of tender tree fruits. Most of this acreage is designated as Good Tender Fruit Areas in the Region's Policy Plan.

A small number of farms account for the majority of Niagara's tender fruit production. Over half of the peach acreage and about 40% of all tender fruit acreage is concentrated on 57 farms. These farms have 50 acres or more of peaches. Ninety percent of the tender fruit acreage is on farms that report more than 10 acres of fruits and vegetables.³

At the same time, Niagara has a large number of smaller-sized farms reporting tender fruit. Almost 44% of farms have less than five acres in tender fruit production. These farms constitute less than five percent of Niagara's tender fruit acreage.

B. GOALS AND PRIORITIES OF THE PROGRAM

B.1 To Sustain Ontario's Unique And Irreplaceable Niagara Tender Fruitlands For Future Generations.

Priorities

- a) The placement of agricultural easements on title of as many acres of tender fruitland as possible to preserve these unique agricultural lands in perpetuity (for an unlimited period of time).
- b) The support of Provincial and municipal planning policies that protect tender fruitland through the provision of an additional mechanism for land preservation.
- c) The signaling of a firm commitment to preserving this resource for agriculture and thus reducing the speculative values of farm property in order to make farming more economical.
- d) The financial compensation of growers for the preservation of a unique resource for the present and future public good.

Vegetable production in the Niagara Region is relatively small.

B.2 To Contribute To The Long-term Viability Of Niagara's Tender Fruit Industry.

Priorities

- a) The retention of the land base necessary for a sustainable tender fruit industry.
- b) The support of growers to buy and sell land at a price which more closely reflects its agricultural value and helps to avoid unsustainable debt.
- c) The retention of and the support for the farming and scientific expertise which has been developed through two centuries of tender fruit farming.
- B.3 To Reinforce Governments' Actions And Programs Supporting The Preservation Of These Unique Agricultural Lands.

Priorities

- a) The strengthening of Provincial Food Land Guidelines for Niagara tender fruitlands which are unique and under relentless development pressure.
- b) In a similar manner, the enhancement of the Regional Policy Plan and local official plans.
- c) A strategy for the competitiveness of the tender fruit industry.

C. LEGAL FRAMEWORK

As discussed in Chapter II, conservation or agricultural easements must be created by legislation. For example, the <u>Ontario Heritage Act</u> authorizes the Ontario Heritage Foundation to acquire heritage easements that "run with the land" and may include obligations and restrictions even when the Foundation does not own any adjacent lands.

At the present time, there is no legislation which specifically creates easements for agricultural preservation purposes. The Ontario Heritage Foundation may enter into easements "for the conservation, protection and preservation of the heritage of Ontario." If agricultural land can be considered to be part of the heritage of the Province, then the Ontario Heritage Foundation would be able to acquire easements for agricultural land preservation purposes. At the present time, no other body would appear to have the power specifically to acquire agricultural easements.

Currently, the Province is reviewing its heritage policies. A draft report by a Minister's Advisory Committee includes proposed changes which would broaden the easement powers under the Ontario Heritage Act. The power to take easements for heritage conservation purposes would be extended to all public authorities which are authorized to hold interests in land and to nongovernment conservation organizations. The proposed changes do not refer specifically to agricultural land preservation.

Conclusion

In the short-term, it may be possible to acquire agricultural easements under the <u>Ontario Heritage Act</u>. However, in the long-term, to remove any legal uncertainties about the ability of the Ontario Heritage Foundation or any other private or public body to acquire and enforce agricultural easements, clearer legislation is desirable.

Recommendations

- That in the short-term agricultural easements be acquired under the existing <u>Ontario Heritage Act</u>.
- 4. That changes be made to the Ontario Heritage Act or new legislation enacted which would more clearly allow the Ontario Heritage Foundation as well as other public or private bodies to acquire agricultural easements.

D. ELIGIBILITY REQUIREMENTS

The proposed eligibility requirements for the Niagara Agricultural Easement Program are described below. The first step is to define the area within Niagara where the easement Program would apply. Next, a method for identifying these lands is selected. Third, a preferred set of eligibility requirements for farm properties within the Program area is recommended. Fourth, priorities for farm selection are identified.

D.1 Area of Applicability

Option 1 - Niagara Tender Fruitlands

Located primarily below the Niagara Escarpment along the south shore of Lake Ontario, these lands are well suited to the commercial production of peaches, cherries, and apricots.

Advantages

- The tender fruitlands are unique and irreplaceable because of their special combination of deep sandy soils and a favourable climate.
- The tender fruit industry is experiencing economic difficulties. These lands also are under the greatest pressures for urban development. An agricultural easement program would provide an added degree of protection for these unique lands while helping to address the problems associated with high land costs.
- The amount of tender fruitland is relatively limited keeping the cost of an agricultural easement program reasonable.

Option 2 - Niagara's Unique Lands

Unique lands include both Niagara's tender fruitlands and grapelands.

Advantages

- Both tender fruit and grapelands are unique by virtue of their soils and climate.
- Tender fruitlands and grapelands are located in similar areas. A larger area may be easier to protect.

Disadvantages

 Does not include Niagara's other specialty croplands which are also unique.

- Would double the amount of land eligible for agricultural easements thereby increasing Program costs.
- The Grape Acreage Reduction Program has had success in restructuring the grape industry.

Recommendation

 That the Niagara Agricultural Easement Program apply only to Niagara tender fruitlands.

D.2 Identifying The Tender Fruitlands

The location of the tender fruitlands must be defined for the purposes of the Program. Two options exist.

Option 1 - Lands in a Good Tender Fruit Designation as shown in the <u>Regional Niagara Policy Plan</u> (Figure 1)

Advantages

- Lands already defined through the planning, public consultation, and Provincial approval process.
- Contains almost all of Niagara's tender fruitlands.
- Likely to exclude lands producing tender fruit in more marginal locations.
- Recognized public planning process for changes to the Good Tender Fruit Area designation when and if warranted.

Disadvantages

- The present Agricultural Land Base Map in the Policy Plan may not identify all lands which are worthy of a Good Tender Fruit designation. Currently, Regional Niagara is reviewing the Map.
- Some other crops may be grown in a Good Tender Fruit designation.
- Some boundaries of the Good Tender Fruit Area designation may be difficult to interpret precisely.

Option 2 - Lands Currently in Tender Fruit Production

Advantages

 Avoids lands not growing tender fruit.

- Excludes lands which may be suitable for tender fruit but are not currently in use.
- Existing patterns of tender fruit production are not mapped. The agricultural land use mapping which is available is almost 10 years old.

In this area the land use designations of Section 7.11 and local official plans that conform with the Regional Policy Plan prevail Escarpment has been redefined in Policy 7.B.9 to coincide with the Escarpment Natural Area on the Niagara use. The environmental area associated with the Niagara area, Section 7.H sets out policies that determine land "Within the boundaries of the Niagara Escarpment Plan Policy Plan are considered to abut the Escarpment Natural Area except in the area generally shown in the Short Hills area and dentified on the map as Escarpment Plan Map 1. Agricultural policy areas in the REGIONAL MUNICIPALITY OF NIAGARA THE Figure 1 Agricultural Land Base **LEGEND: Policy Areas** plans of villages and hamlets shown in local Official only the general location Note: Designates the approximate boundaries of the Niagara Escarpment Plan area Note: Lands shown in white include: Good Tender Fruit Areas Urban Areas, designated Rural Areas Good General Good Grape Areas This Symbol marks Villages and Hamlets, Agricultural Areas Environmental Areas and some MARCH 1991 77

Disadvantages

- May lead to increased tender fruit production as farmers seek to qualify for the Program.
- May include lands which are more marginal for tender fruit production.

Conclusion

Currently, neither Option provides an entirely adequate basis for identifying Niagara's tender fruitlands. At this point, both Options should be combined. In the short-term, the Program should apply to tender fruitlands in Niagara as shown by a Good Tender Fruit Area designation in the Regional Niagara Policy Plan as well as to lands in tender fruit production which are nearby and can meet all other eligibility requirements. In the long-term, a revised Agricultural Land Base Map in the Regional Niagara Policy Plan which more accurately reflects land suitability and production patterns should be used.

Recommendation

6. That the Program apply to both tender fruitlands as shown by the Good Tender Fruit Area designation in the Regional Niagara Policy Plan and to lands in tender fruit production which are nearby and can meet all other eligibility requirements until a revised Regional Agricultural Land Base Map is prepared.

D.3 Property Applicability

Members of the Committee agreed that not all lands within the Good Tender Fruit Area or nearby lands should qualify for the Program. To achieve the goal of protecting the uniqueness of the resource, the emphasis should instead be placed on protecting those lands which:

- are available for tender fruit production both in the short and the long-term (e.g. within the Good Tender Fruit Area).
- will contribute the most to a future viable tender fruit industry (e.g. larger farm parcels).
- have the maximum benefits while minimizing Program costs.

Recommendation

 That the following eligibility requirements be established.

To be eligible the farm parcel must:

- (i) have a minimum of five acres of tender fruit producing orchards which have been in production for the preceding three years, and
- (ii) be part of a farm operation generating a minimum gross farm income of \$15,000^b from tender fruit production. This requirement can be met through the combined income from one or more parcels which are being considered for easements.
- * For the purposes of this Program, tender fruits are defined as peaches, apricots, cherries, pears and plums.
- b Derived from Regional Niagara's proposed Policy Plan Amendment 60.

D.4 Priorities For Farm Parcel Selection

Not all eligible farm properties can be acquired at the beginning of the Program. A selection process, therefore, is needed to identify and rank farm parcels for easement purchase.

Most U.S. programs have weighted farm selection criteria which indicate the degree of the threat of conversion to nonagricultural uses (e.g. proximity to nonagricultural uses and road frontages) and the farm's agricultural quality (e.g. farm size and soil capability). Farm properties with the greatest number of points are given the highest priority for easement purchase.

At this stage, the Committee can offer some initial guidelines for the Program's farm parcel selection process based on the Program's goals.

Preliminary Guidelines for Farm Parcel Selection

Some of the major factors which should be considered when establishing priorities for easement purchases are listed below.

Farmland Characteristics

- a) Tender Fruit Designation Parcels within a Good Tender Fruit designation in the Regional Policy Plan should be given higher priority than nearby parcels.
- b) <u>Farm Parcel Size</u> Larger farm parcels should be given a higher priority for easement purchase. These tender fruitlands are the most likely to be viable in the long-term.
- c) Orchards Farm parcels primarily devoted to tender fruit production will be given a higher priority. For example, a 15 acre parcel with ten acres in tender fruit will be favoured over one with only six acres of orchards.
- d) Tender Tree Fruits
 Peaches, apricots, sweet cherries, and sour cherries are the more sensitive tender fruit crops and, if necessary, should be given a higher priority than other tree fruits for easement purchase.

Degree of Threat of Conversion

a) Proximity to Urban Areas Boundaries as shown in the Regional Niagara Policy Plan
Tender fruitlands near urban areas are the resources which are most likely to be lost first. The purchase of easements on some tender fruitlands in these locations will do much to support agricultural land protection policies.

Other Factors

- a) <u>Farm Tenure</u>
 Tender fruitlands operated by the owner will be given a higher priority for easement purchase.
- b) Location within the Region
 There is no better advertisement for an easement program than a
 participating farmer. An effort, at least initially, should be
 made to ensure that farmlands are selected from each of the Fruit
 Belt municipalities.
- c) <u>Easement Cost</u>
 Any single easement purchase should not require a substantial portion of the Program's annual budget in order to facilitate the purchase of as many easements as possible.

Recommendation

 That applications for easement purchase be ranked, if necessary, in order of priority according to factors such as farm size and the degree of threat of conversion.

E. VALUING AGRICULTURAL EASEMENTS

Four methods for determining the value of agricultural easements are examined.⁴ A preferred approach is then selected. The four options for valuing agricultural easements are:

- real estate appraisals
- farm property tax assessment
- a formula/points system
- a fixed fee

Option 1: Real Estate Appraisals

In most U.S. programs, the maximum price of an agricultural easement is determined by taking the difference between:

- the fair market value of the "highest and best use"⁵ of the property before the easement is placed on title. The highest and best use is usually a residential subdivision (Schnidman et al., 1990), and
- . the restricted value of the property after the easement has been placed on title.

This difference is estimated through one or more real estate appraisals. Standard property valuation approaches, usually comparable sales, are used to establish the "before and after" values (American Farmland Trust, 1990 and Coughlin and Keene,

Although the easement would apply to the entire farm parcel, the value of the easement would exclude one acre of land for any farm residences present.

The highest and best use of a property is "that reasonable and probable use which will support the highest present value of the property as of the date of the appraisal" (Land Trust Alliance and National Trust for Historic Preservation, 1990): 19.

1981). This amount represents the maximum value of the landowner's purchased "development rights".

Advantages

- Pays more for land under the most development pressure (based on market factors).
- "Before and after" method of appraisal is accepted by legal authorities in the U.S. (Illi, 1987).
- Considered by landowners to be fair because they are compensated for restrictions on the use of their land (Daniels, 1991b).

- Based on compensation for development rights. In Canada, landowners do not have the constitutional right to develop their property.
- Easement values can be unpredictable and controversial (Peters, 1990 and Thompson, n.d.).

 Easement values for a farmland property can vary widely from one appraiser to another (Dolan, 1991 and Reid, 1987).
- Time consuming (Peters, 1990; Thompson, n.d., Dolan, 1991 and The Office of Economic Development and the Agricultural Advisory Board, 1990).
- Appraisals can be costly (Peters, 1990; Thompson, n.d. and Dolan, 1991). Peters (1990) reports an appraisal cost of \$2,000.
- Complex to determine particularly when the farmland is zoned (e.g. What type of nonfarm use should be used to calculate the fair market value?) (Daniels, 1991b). With few sales of farmland with easements, it will be difficult to determine "after values" (Dolan, 1991; Illi, 1987 and Reid, 1987).

Disadvantages

- Values for some lands may be nonexistent or low if existing zoning already greatly limits development potential and there is little likelihood of change in the near future (Hoffman, 1991; Regional Niagara, 1990 and Dolan, 1991).
- The real estate appraisal process is imprecise and may be subjective (Daniels, 1991b).
- Real estate appraisers in Ontario have had little experience valuing conservation easements (Reid, 1987).

Option 2: Farm Property Tax Assessments

In several American States, farm property tax assessment figures have been used as a substitute for real estate appraisals in determining the agricultural value of farmland (Buckland, 1987 and Coughlin and Keene, 1981). The fair market value must still be appraised. This approach saves appraisal and administrative costs.

Ten years ago, the State of New Hampshire valued easements by using farm property tax assessment figures as well as real estate appraisals. However, this dual approach was abandoned because tax assessments no longer reflected farmland prices in the marketplace.

Advantages

- Figures already exist.
- Avoids problems of appraising agricultural land and reduces administrative costs (Coughlin and Keene, 1981).

Disadvantages

 May undervalue farmland if assessment values are old and farmland values are rising (Coughlin and Keene, 1981).
 Alternatively, the value of farmland may be overstated if farm property values are declining.

Advantages

- Reduces farmers' concerns that higher appraised farmland values will lead to increases in farm property tax assessment (Coughlin and Keene, 1981).
- The proposed new market value assessment system for Niagara, if adopted by Regional Council, would provide a uniform method of assessing properties across the Region based on 1988 market values (McNorgan, 1992).

Disadvantages

- If regional averages are used, then high quality farmland may be undervalued (Coughlin and Keene, 1981).
- Within Niagara there are differences in how farm properties are assessed for tax purposes. Niagara Falls, Wainfleet, and N-o-t-L are on market value assessment.
- The base year for calculating farm property values in Niagara also varies by municipality. Some assessments are based on 1940 replacement cost figures which were reassessed in 1960, while others are more recent (1984).
- Currently, the method of assessing land in Niagara is being reviewed by Regional Council. Therefore, there is some uncertainty about how land will be assessed in the future.
- The fair market value of the farmland property still must be determined.
- May be based on a limited number of farmland sales and may not be representative of farmland values.

Option 3: A Formula/Points System

As a result of the drawbacks of real estate appraisals, an alternative method of valuing easements has been developed in the United States. A formula/points system identifies various factors (e.g. soil productivity) which are to be awarded points. A dollar value for each point is established. The easement value is determined by multiplying the number of points by the dollar value per point. Two examples follow.

Vermont

The State of Vermont is in the process of developing a points system to determine the value of agricultural easements (Dolan, 1991). In the draft Farmland Investment Program, the value of easements is to be based on the public benefits associated with resource protection instead of the value of development rights (Dolan, 1991).

In the draft program, dollar values are to be based on:

- soils (main factor)
- open space
- acreage in pasture and cropland
- public access
- water frontage
- environmental values (e.g. wetlands)
- archaeological or historic features; and
- road frontage (American Farmland Trust, 1991d and Dolan, 1991).

Landowners, who consider the price offered for the easement to be too low, still have the option of obtaining an appraisal (Dolan, 1991).

Montgomery County, Maryland

Montgomery County, Maryland uses two methods to value easements. The landowner may choose the formula or the appraisal method (The Office of Economic Development and the Agricultural Advisory Board, 1990). The formula is based on the priority which is placed on protecting a farmland property (Warman, 1991 and Peters, 1990). Each year, the County sets a base value (e.g. \$7.50 per acre) for agricultural easements (Peters, 1990). All farms automatically receive a fixed number of base points (100). As shown in Table 2, additional points are assigned based on a variety of farm characteristics (Warman, 1991 and Peters, 1990).

Table 2

MONTGOMERY COUNTY'S BASE+ PLUS FARMLAND EASEMENT VALUATION METHOD

Example: A 20 acre farm has 10 acres Class I soils, 5 acres in Class II and 5 acres of Class III soils. It generates a gross farm income of \$30,000. The farm has 1,000 feet of frontage and is within a quarter mile of the edge of the agricultural zone. The farmer has an approved soil conservation plan. There is one dwelling on the farm.

	Points
Base Points	100
Characteristics	
Farm Size 1 pt. for every 5 acres of land	4
Land Quality	
Soil Class I (3x Percent of Acreage) Soil Class II or Woodland Group I (2x Percent of Acreage) Soil Class III or Woodland Group II (1x Percent of Acreage) 10 pts. with approved soil conservation plan	150 50 25 10
<pre>Land Tenure 25 pts. if annual gross farm income is \$5,000 or more</pre>	25
<pre>Road Frontage 1 pt. for each 50 ft. of frontage to a maximum of 100 pts.</pre>	.20
Agricultural Edge Zone 100 pts. if within 1/2 mile of edge of Agricultural Zone	100
Total Points	484
Maximum Easement Value/acre = Total Points x Base Value = 484 x \$7.50 = \$3,630/acre	
Total Easement Value = Value/acre x Acreage (excluding 1 acre for the dwelling)	

Total Easement Value = Value/acre x Acreage (excluding 1 acre for the dwelling) = \$3,630 x 19 = \$68,970

Sources: The Office of Economic Development and the Agricultural Preservation Advisory Board, 1990 and Peters, 1990.

The formula, which is currently in use, is said to have "significant advantages" over the traditional appraisal process (Peters, 1990). Participation in the easement program has increased substantially since the new method was adopted. A 20% increase in the amount of land under easement, from 25,000 acres to 30,000 acres, was attributed to the new method (Peters, 1990).

Easement prices have ranged from \$1,200 to \$3,700 per acre. The average price for an easement is \$3,200 per acre (Warman, 1991). These prices are considered to be competitive with easement values determined through the appraisal process in Maryland (Peters, 1990).

Formula/Points System

Advantages

- Much faster and simpler than appraisals, and easily understood thereby encouraging more participation by farmers (Dolan, 1991; Peters, 1990; Warman, 1991 and Thompson, n.d.).
- Provides the landowner and the easement agency with an early estimate of the easement value without having to make a commitment to a lengthy approval process.
- Administrative cost savings (Dolan, 1991).
- Easement values for lower priority farmland may be less than the appraised value.
- Can estimate the public benefits of farmland protection (Warman, 1991).
- Not dependent on the real estate market (Warman, 1991).
- Saves the farmer and/or the government the cost of appraisals (Peters, 1990).
- Based on the resource (Dolan, 1991).

- Farmers do not receive the same amount for their agricultural easements.
- May pay more for high priority farms than under the appraisal process.
- Must select factors, develop a rating system, and establish a base price relevant to Niagara.
- May be difficult to assign points and values.
- A relatively new method of calculating easement values, therefore, not all of the pros and cons may be known.
- More attractive to farmland owners with lands under less development pressure.

Option 4: A Fixed Fee

The Task Force on Agricultural Finance and Farmland Issues In the Niagara Tender Fruit Industry concluded that the price of agricultural easements should be a fixed fee. The Task Force suggested that the fee be based on the difference between the value of tender fruitland in Niagara and the Leamington/Harrow area of Ontario. The average price of tender fruitland in Niagara was estimated to be at approximately \$13,000 per acre. In contrast, the average price of tender fruitland in the Leamington/Harrow area is about \$3,000 to \$4,000 per acre. Thus, an easement would be worth \$10,000 an acre (\$13,000 per acre minus \$3,000 per acre).

Advantages

- Avoids costly, time consuming, and difficult appraisals.
- All tender fruit growers in Niagara are treated the same.
- Not subjective.
- May reduce the perception that development rights are being purchased.
- Simple.
- Niagara farm organizations support the use of one figure.

Disadvantages

- Does not consider variations in land values across Niagara's tender fruitlands.
- May be some question about how much of the \$13,000 per acre price for farmland in Niagara reflects agricultural value and how much is the result of urban pressures.
- Value based on a small number of farmland sales.
- Individual landowners may not agree with the fixed fee.
- Does not prioritize lands for protection.

Conclusion

Although the Easement Committee was able to dismiss the appraisal and farm property tax assessment methods of valuing easements quickly, there was considerable debate regarding the two remaining methods: a fixed fee and a points system. A fixed fee is simple, quick, and treats all Niagara tender fruit growers the same. On the other hand, a points system helps to establish priorities for farm parcel selection by paying more for the best tender fruitlands (in Good Tender Fruit Areas) in the greatest jeopardy of being lost to development. The Committee concluded that a points system, as

These estimates of land values were obtained by the Tender Fruit Industry Task Force from the Farm Credit Corporation (FCC).

illustrated by Montgomery County's base plus farmland easement valuation system, is preferable. The system should be designed to be very simple and should avoid the need for any site-specific studies. For example, the points given for land quality simply should be higher for parcels within a Good Tender Fruit designation as shown in the Policy Plan.

Recommendations

- 9. That a simple points system similar to the Montgomery County Maryland valuation method but tailored to Niagara's tender fruit industry be used to determine the specific value of individual easements.
- 10. That the Conservation Easement Committee be reconvened to develop the points system as soon as possible.

F. ADMINISTRATION

The following options for administering the Niagara Agricultural Easement Program were considered:

- a Niagara Trust (nonprofit organization)
- the Ontario Tender Fruit Producers' Marketing Board
- Regional Municipality of Niagarathe Ontario Heritage Foundation
- the Ontario Ministry of Agriculture and Food
- Joint Administration

The advantages and disadvantages of each of these options are discussed below.

Option 1: Niagara Trust

A Niagara Trust would be a new nonprofit organization, similar to a Board or Commission, with a board of directors appointed by the government(s) which contribute to agricultural easement purchases. The Trust would be based in Niagara.

Advantages

- Would have the purchase of agricultural easements as its sole mandate.
- Could be a vehicle for raising funds for easement purchases and public education. The American Farmland Trust is a U.S. example.
- A Niagara Trust would allow the Program to be administered locally.

Disadvantages

- A new body would have to be created which requires legislation.
- Under existing legislation, nongovernment groups cannot acquire or negotiate a conservation easement. (Trombetti and Cox, 1990).
- The cost of setting up a new organization.

Option 2: The Ontario Tender Fruit Producers' Marketing Board

The Ontario Tender Fruit Producers' Marketing Board establishes quality standards, prices for fresh (peaches, pears, plums) and processed tender fruits (peaches, pears, plums, and cherries), and promotes the consumption of Ontario tender fruit.

Advantages

- Knowledgeable about the Grape Acreage Reduction Program.
- Familiarity with area growers, land quality, local issues. The Board already exists and is known to Niagara growers.
- Could be growers' contribution to the Program.

Disadvantages

- At present, the Board does not have the ability to acquire easements.
- Would require a separate nonprofit organization in order to accept donations.
- May be put into an awkward situation of choosing which of its members would receive easements and at what price. It may not be seen as a neutral body.

Option 3: Regional Municipality of Niagara

The Regional Planning and Development Department would administer the Program.

Advantages

- Located in the Niagara area and therefore staff are aware of local conditions.
- Staff are familiar with planning policies.

Disadvantages

 Under current legislation, the Region is not able to acquire agricultural or conservation easements.

Advantages

 Could be part of the Regional contribution to the Program.

Disadvantages

• Under Section 37 of The Ontario Heritage Act, local municipalities are permitted only to enter into conservation easements which protect buildings of historic and archaeological significance. Thus, changes to the Ontario Heritage Act would be required to allow Regional Niagara to acquire agricultural easements.

Option 4: Ontario Heritage Foundation

Established in 1968, The Ontario Heritage Foundation is a nonprofit agency of the Ministry of Culture and Communications. As set out in Section 7 of the Ontario Heritage Act, the purpose of the Foundation is to conserve and protect Ontario's heritage which includes properties of historic, architectural, archaeological, recreational, aesthetic, and scenic interest. The Foundation receives an annual operating grant from the Ontario Legislature, but works at arms length from government. The Foundation is administered by a Board of Directors whose members are appointed by the Provincial Cabinet to represent the various regions of Ontario (Ontario Heritage Foundation, n.d.).

Advantages

- Agricultural easements may fit into the Foundation's mandate.
- Foundation staff are familiar with negotiating, acquiring, and holding easements.
- A nonprofit organization at arms length from government is more likely to receive donations and attract greater participation than government agencies (Reid, 1987).
- The Foundation already exists and has a proven track record.

- Less familiar than local organizations with the Niagara area and with agricultural and planning concerns.
- May be uncertainty as to the Foundation's powers under the Ontario Heritage Act to acquire agricultural easements.

Option 5: The Ontario Ministry of Agriculture and Food

Advantages

- An agricultural easement program is consistent with the Ministry of Agriculture and Food's Mission Statement and its Strategic Direction on Environmental Sustainability (Ontario Ministry of Agriculture and Food, 1991a).
- Could be part of Province's contribution to the Program.
- Provides the Province with greater accountability for its financial contributions.

Option 6: Joint Administration

Disadvantages

- Would not provide the Program with as high a profile as a separate organization.
- The <u>Ministry of Government Services Act</u> has not been used as a means of acquiring conservation easements (Reid, 1987).

More than one body could be responsible for administering the Program. In the U.S., some easement programs involve both state and county governments.

Advantages

 Could combine organizations with local knowledge (e.g. Regional Niagara, Ontario Tender Fruit Producers' Marketing Board) with those which have an expertise in acquiring easements (Ontario Heritage Foundation).

Disadvantages

- Increases the complexity and cost of administering the Program.
- Based on the American experience, joint administration is likely to increase the length of the easement approval process (Daniels, 1991b).

Conclusion

Two main factors affect the selection of a preferred option for the administration of the Program. The primary consideration is the ability of the organization to acquire agricultural easements as soon as possible. Second, local involvement in the Program's administration is essential.

In the short-term, the Ontario Heritage Foundation may be able to acquire agricultural easements. A Niagara Trust Committee should be formed to allow local participation in the Program's administration. The members should be appointed to the Committee by the governments contributing to the Program's cost. The Committee would report to the Foundation's Board of Directors. A similar special purpose Committee was established to select Niagara Escarpment lands for easement protection.

In the long-term, a nonprofit organization, a Niagara Trust, should be created. Established by legislation, the locally-based Trust would administer the Program.

Recommendations

- 11. That the Province form a Niagara Agricultural Easement Committee, as part of the Ontario Heritage Foundation, to administer the Program in the short-term.
- 12. That members be appointed to the Committee by the governments contributing to the Program's cost.
- 13. That a Niagara Trust be established to administer the Program in the long-term.

G. FINANCING

Financing has been a weakness of agricultural easement programs in the U.S. (Freedgood, 1989 and 1991 and Schnidman et al., 1990). Adequate, predictable, and sustainable funding is essential to the long-term success of any agricultural easement program.

G.1 Easement Acquisition Costs

To determine the Program's cost, the maximum range for easement values must be established. Three main factors were considered in determining these figures:

- the implications for the Program's cost,
- the easement value should be a percentage of the agricultural market value of the land otherwise an easement program would be as expensive as land banking, and
- their acceptability to Niagara tender fruit growers who decide whether to participate in the voluntary Program.

Based on 407 land sales at prices between \$100 and \$100,000 in the Fruit Belt municipalities in 1990-91, the average price per acre for properties five acres or more in size is \$12,128. This price is similar to the \$10,000 per acre figure suggested by the previous Task Force. The \$10,000 per acre figure has received a measure of acceptance from Niagara farm organizations.

Recommendation

14. That easement values range from \$8,000 to \$12,000 per acre depending on the quality of farmland and the degree of threat of conversion.

G.2 Administrative Costs

As with any new initiative, there will be implications for staff and administrative costs. However, Committee members agreed that a large staff is not required.

The administrative costs of an agricultural easement program will include:

- legal fees
- staff time (program administrator and secretarial staff)
- per diem for Committee members
- office space, equipment, and materials
- travel expenses, and
- program promotion, education, and fund raising.

These expenses are estimated roughly to be around \$125,000 per year.

G.3 Program Cost

Based on the eligibility requirements, the average easement value and participation, the Program is estimated to cost in the range of \$60 to \$70 million at an average of \$10,000 an acre. This estimate recognizes that the Program is designed for orchards over five acres on the unique tender fruitland.

Currently, farm properties occupying 21,628 acres report 12,800 acres in orchards. While most of the peach orchards are located within the Good Tender Fruit designation, fewer of the pear and plum orchards are located there. In addition, there are small holdings with a few fruit trees and some growers may choose not to participate. The amount of land likely to come under easements, therefore, is estimated to be between about 6,000 to 7,000 acres.

A five-year funding period was selected to coincide with a Program review. The purpose of this review would be to evaluate the effectiveness of the Program and identify any areas for improvement.

Recommendations

- 15. That \$20 million be made available in the first five years of the Program to acquire 2,000 acres of the highest priority tender fruitland.
- 16. That the Program be reviewed after five years to identify any areas for improvement.

G.4 Funding Sources

After considering a wide range of possible funding sources, the Committee narrowed the main options to four:

- Provincial Government Funding
- Funding From Federal Government
- Funding From Regional Niagara
- · Private Sector Funding

Option 1: Provincial Government Funding

The advantages and disadvantages of various options for obtaining or raising Provincial funding for the Program are described below.

a) General Provincial Revenues

The Provincial Government would fund the Program from its general revenues.

Advantages

- Provincial tax base is relatively large and, therefore, the cost to individual taxpayer is lower.
- Fruitlands are a Provincial resource.

- Continued government funding is subject to review and possible cuts.
- Expenditure must be shown in Provincial Budget. Possibly, the earliest the Province could contribute is the 1993-1994 fiscal year.

b) Agricultural Land Conversion Tax

A landowner converting farmland to nonagricultural uses in Ontario would be subject to a tax.

Advantages

- May discourage conversion of agricultural land.
- Method of raising funds related to the Program purpose.

Disadvantages

- A smaller tax base than general Provincial revenues.
- Amount raised would vary with the level of development activity. Funding would be unstable.
- A new tax which must be administered and collected.
- Agricultural lands must be converted in order for funds to be raised.
- Difficult to implement.
- May require legislation to establish.

c) Land Speculation Tax

Landowners who purchase property and resell it within a relatively short period of time would be subject to this form of capital gains tax.

Advantages

- Taxes landowners who receive the unearned benefits of public investment in infrastructure.
- A form of capital gains tax.
- May assist in the prevention of farmland conversion.

- May generate little revenue (Tax Treatment of Real Estate Gains Working Group, 1992).
- May require legislation to establish.
- Administratively complex (Tax Treatment of Real Estate Gains Working Group, 1992).

Disadvantages

- The majority of the Provincial Working Group studying the taxation of real estate gains concluded that no changes should be made to the existing taxation system (Tax Treatment of Real Estate Gains Working Group, 1992). The Group's conclusion was based on four key findings:
 - with a few exceptions, there are no significant differences between the tax treatment of real estate gains and other types of property,
 - the absence of significant real estate speculation in Ontario,
 - the lack of proof that speculation has an overall negative economic impact, and
 - the introduction of a tax could have a negative impact on an already depressed real estate market.

d) Land Transfer Tax or Surtax

This existing Provincial tax is paid when land is tendered for registration under the <u>Land Titles Act</u> or the <u>Land Registry Act</u>. The Tax is calculated at a percentage of a property's purchase price. In 1989-1990, \$18.1 million in land transfer taxes were collected in the Niagara Region. The rate of taxation could be increased (e.g. a surtax) or a portion of the \$18.1 million could be reallocated to raise the necessary funds.

Advantages

- A relatively broad tax base.
- Already collected.

Disadvantages

- Provincial cooperation required for administration.
- Legislative changes necessary to increase the rate of taxation.

Option 2: Funding From The Federal Government

The Federal Government could contribute money for the Niagara Agricultural Easement Program from its General Revenues, through its Green Plan, a National food tax, or a National Check-off System on Horticultural Products.

General Revenues a)

The Federal Government would provide funds through its general revenues.

Advantages

• Extra administration is not required.

Disadvantages

• Future funding will subject to ongoing review and possible cuts.

b) Federal Green Plan

The Federal Government could provide funding through its Green Plan. A total of \$350 million has been allocated over five years to promote the sustainability of fisheries, forestry and agricultural resources in Canada (Government of Canada, 1990).

Advantages

the purpose of the Program and the funding.

Disadvantages

 There is a good fit between
 Likely only a one-time grant available.

c) A National or Provincial Food Tax

A new tax would be applied to all food products both foreign and domestic at either the Federal or Provincial level.

Advantages

- Tax base is very large. Thus, only a small levy required.
- Revenue source directly related to agriculture.

- Regressive form of taxation.
- Some foods already are taxed (GST).

d) National Horticultural Check-Off System

The Federal Government has introduced enabling legislation under the National Farm Products Marketing Agencies Act which would permit fresh fruit and vegetable commodity groups to apply for a check-off system. In a check-off system, a levy of 0.2% would be placed on first sales of imported and domestic fresh fruit and vegetable products to fund market research and promotion (excludes fresh fruits and vegetables sold for processing or exported). Based on 1988 farm cash receipts (less exports and processing), \$4.4 million could be raised using this check-off system (Fresh for Flavour Foundation, 1990).

Advantages

Related to the horticultural industry.

Disadvantages

- Small tax base relative to other sources.
- Can only use the funds for market research and promotion.

Option 3: Funding From Regional Niagara

The advantages and disadvantages of two options (municipal bonds and general revenues) for raising funds at the Regional level are discussed below. One problem with Regional funding is that providing money to individual farmers could be construed as bonusing (assisting business) which is not permitted under the Municipal Act.

a) Municipal Agricultural Bonds

Bonds, a form of debt-financing, would be issued by Regional Niagara in order to raise the necessary funds for the Program.

Advantages

- The funds which are raised would be specifically targeted to the Easement Program.
- The Region would not have to draw on existing revenue to pay for the Program.

- Administrative costs associated with issuing bonds.
- The issuance of bonds is a means of borrowing money and is no different from the use of general revenues.
- The cost of borrowing money.

Disadvantages

 Municipalities can only issue bonds for a capital works or to acquire land. Municipal bonds also must receive OMB approval and could be subject to objections. Legislative change would be required if agricultural bonds are to be issued for easement purchases.

b) General Revenues

Advantages

- Avoids administrative costs of issuing bonds.
- Taps into public support for the preservation of the Niagara Fruit Belt.

Disadvantages

- Expenditure must be shown in the Regional budget. The earliest the Region could contribute is in the 1993 fiscal year.
- Future funding will be reviewed by Regional Council and could be cut.

Option 4: Private Sector Funding

Individuals, interest groups (e.g. The Preservation of Agricultural Lands Society), foundations, farm organizations (e.g. Ontario Tender Fruit Producers' Marketing Board and local Federations of Agriculture), and corporations could donate money or assets (which then could be sold) to the Program in return for tax benefits. A Niagara Trust Fund would be established to receive these donations. A similar trust fund was created recently in order to raise funds for heritage preservation in the Town of Niagara-on-the-Lake.

Advantages

 Reduces the dependency on government sources and increases the stability of financing.

- Some sources are likely to be one-time grants.
- Unlikely to provide all of the necessary funding.

Advantages

- By increasing the amount of funding available for the Program, this Option would make Provincial and other Government funding go further.
- A reserve account could be created as part of the Trust Fund. Donations in the reserve would accrue interest in order to create a sustainable funding source.

Disadvantages

 Requires administration (e.g., publicity, fund raising).

G.5 Financial Arrangements

One way to fund the Program is joint financing. Five possible options for the distribution of Program costs are presented below:

- Program costs will be shared by the Provincial (50%), Regional (25%), and Federal (25%) Government.
- For every dollar raised by Regional Niagara, the Provincial Government will provide four dollars.
- The Provincial Government will provide 100% of the Program's funds with Regional Niagara covering the administrative costs (e.g. staffing requirements).
- The Provincial Government will cover all Program costs.
- A combination of government and private sector sources will be used to fund the Program.

Option 1: 50/25/25 - Provincial/Federal/Regional Financing Arrangement

Advantages

 The cost of the Program to the Provincial Government would be cut in half from \$20 million to \$10 million in the first five years.

Disadvantages

 Regional Niagara unlikely to be able to contribute \$5 million over five years. This figure represents 8.7% of the Region's five year Capital Budget⁷ and 4.4% of its 1992 Current Budget.

Excludes user fee rates, development charges, conditional grants and the like.

Disadvantages

 The Federal Government may be unwilling to participate because of its concentration on funding to farmers through Gross Revenue Insurance Plan (GRIP) and the Net Income Stabilization Account (NISA).

Option 2: Matching Funds (4:1 Provincial to Regional)

Advantages

 Do not have to rely on the Federal Government for a contribution.

Disadvantages

- In comparison with Option 1, the Regional contribution is \$4 million which is lower than Option 1. Nevertheless, Regional Niagara may still be unable to contribute \$4 million over five years.
- Provincial contribution is \$16 million rather than \$10 million under Option 1.

Option 3: Regional Government (Administrative Costs), Provincial Government (All Other Costs)

The Provincial Government contributes the cost of the easement purchases with Regional Niagara covering the Program's administrative costs.

Advantages

- Regional Niagara's contribution is reduced considerably.
- No Federal Government contribution necessary.

- Affects the choice of administrative arrangement.
- Provincial Government bears almost all the Program's cost (likely 97%).

Option 4: Provincial Government Covers All Costs

The Provincial Government is responsible for 100% of the Program's cost.

Advantages

- No other levels of government are required to be involved.
- The Provincial Government would have full control of the Program.

Disadvantages

 The cost to the Provincial Government is not reduced (\$20 million).

Option 5: A Combination of Government and Private Sector Funding

Both public and private sector sources would be used to finance the Program.

Advantages

- Makes government funds go further.
- Private sector contributions can be used to start a Niagara Trust Fund. In the long-term, the Fund could create a sustainable source of financing for the Program.
- Taps into public support for the preservation of the Niagara tender fruitlands.

Disadvantages

 Private sector contributions will vary from year to year.

Conclusion

A combination of government and private sector funding sources is preferred. This option would make government funding go further. Any funds which are unspent in any Program year would be rolled back into the fund.

A reasonable amount for Regional Niagara to contribute may be \$250,000 per year for each of the first five years of the Program or \$1.25 million. The Provincial Government would be expected to contribute \$3.75 million per year for the first five years of the Program. Over five years, the Province would contribute a total of \$18.75 million.

Private sector contributions could be stimulated if governments match the amount raised. These matching funds would help to start the Niagara Trust Fund growing.

Recommendations

- 17. That the Provincial Government allocate \$3.75 million per year to fund the Niagara Agricultural Easement Program for the first five years.
- 18. That Regional Niagara contribute \$250,000 per year for the first five years.
- 19. That the Federal Government be approached for additional funding.
- 20. That a Niagara Trust Fund be established to receive donations from the private sector and governments examine the possibility of providing matching funds.

H. OTHER PROGRAM DETAILS

H.1 Timing of Easement Payments

The following four options for the timing of easement payments were identified by the Committee.

- Lump Sum Payments
- Instalments (1/3 up front, 10% per year thereafter)
- Instalments (1/2 up front, 10% per year thereafter)
- A Choice of Lump Sum or Instalments

No matter which option is selected, the permanency of the easement is unaffected because the easement and the payment schedule are separate agreements.

Option 1: Lump Sum Payments

In this option, growers would receive their easement value in one payment.

Advantages

- One larger payment may have a greater economic impact than several smaller ones.
- The financial transaction is completed in one step.

Disadvantages

- Growers may choose to retire after receiving a lump sum payment. However, even if they do retire, the easement would continue to apply and the farm property would be available to other growers at a price which is closer to its agricultural value.
- Initially, more funds are required to acquire the same amount of land than if easements are purchased in instalments.

Option 2: Instalments (1/3 down payment)

The second option is to pay growers 1/3 of their easement value up front and 10% per year thereafter. Thus, the payments would be spread over almost eight years. The payments would be adjusted for any increases in inflation.

Advantages

- May allow growers to defer any capital gains taxes which might apply.
- In comparison with Option 1, less money is required initially to purchase easements on the same amount of land.
- More growers potentially could participate in the short-term because Program funds initially would go further than under Option 1.

Disadvantages

- Less money is provided to growers in the short-term.
- The costs of administering the payments continue for almost eight years.
- Could be more expensive than lump sum payments over the long-term if the inflation rate rises.

Option 3: Instalments (50% down payment)

Third, the grower could receive 50% of the easement value as a down payment. The remainder would be paid in equal annual instalments over a five-year period. Adjustments would be made for increases in inflation.

Advantages

- May allow the grower to defer any capital gains taxes which might apply.
- Initially, more growers would be able to participate than under Option 1 (lump sum) but fewer than under Option 2 (1/3 down payment).
- Less money is required initially to purchase easements than by lump sum (Option 1) but more than with only a one-third down payment (Option 2).

Disadvantages

- Less money is provided to growers in the short-term than in a lump sum payment (Option 1) but more than if the down payment is 1/3 of the easement value (Option 2).
- The costs of administration continue for six years.
- In the long-term, instalments could be more expensive than a lump sum payment if the inflation rate rises. However, with a shorter payment period (six years) than under Option 2 any effects of changes in the inflation rate are likely to be less pronounced.

Option 4: Lump Sum or Instalments (Growers' Choice)

Growers would be free to choose to receive their payments either in a lump sum or in instalments.

<u>Advantages</u>

- More flexible in meeting the varying needs of growers than either instalments or a lump sum payment.
- Less money is required in the short-term to acquire easements on the same amount of land than if only lump sum payments are made (Option 1).
- In the short-term, more growers could participate than if only lump sum payments are made (Option 1).

Disadvantages

- More difficult than the other Options to administer.
- More difficult to determine Program costs.
- Growers who receive a lump sum payment may choose to retire as under Option 1.
- Requires more money initially to purchase easements than if payments were made by instalments only (Options 2 or 3).

Conclusion

After reviewing the four options, the Committee favoured Option 3 (50% down payment). This Option was selected because:

- more growers would be able to participate initially than if lump sum payments are made,
- the costs of administration are moderate,
- more money is provided initially to growers than with a 1/3 down payment, and it
- may allow the grower to defer any capital gains taxes which might apply.

Table 3 shows the possible dispersal of funds under Option 3.

Table 3

Dispersal of \$20 Million with a 50% Down Payment

A Year	B Down Payment for Agricultural Easement Acquisitions (Millions)	C Annual Payments ^b (Millions)	D Agricultural Easements Acquired by Down Payment (Acres)
1	(\$) 4.0	(\$)	800
2	3.2	0.8	640
3	2.56	1.44	512
4	0.24	1.952	48
5°	-	2.0	- '

Assumptions

- Down payment is \$5,000/acre.
- Annual commitment is \$1,000/year/acre for five years starting in following year.
- Land acquisitions are accumulated as quickly as possible.
- It is assumed that governments will not pay any interest accumulated on the \$20 million reserved for the Program.
- The \$20,000,000 would be made available at \$4,000,000 per year for the first five years. Although not shown in the Table, administrative costs also would have to be absorbed.
- Annual payments are shown for the first five years of the Program. The remainder of the payments will be paid in years six to nine.
- ° In year five, the Program will be reviewed.

Recommendation

21. That farmland owners receive 50% of their easement value as a down payment with the remainder being paid in 10% equal annual instalments over five years.

H.2 Rollover Clause

In any one year, participation in the Program and easement costs will vary. Some money may remain at the end of the fiscal year. These funds should be rolled over into the Program's budget for the following year.

Recommendation

22. That any Program funds remaining at the end of the fiscal year be rolled over to the following year's budget.

H.3 Permitted Uses

The Program must identify the types of agricultural uses which will be permitted after an easement is placed on title. The types of uses which are permitted must be consistent with the Program's goal to preserve the resource base. However, care must be taken not to introduce so many limitations on use that farmers will choose not to participate (Thompson, 1989).

In the implementation stage of the Program, a detailed list of permitted uses will have to be prepared. However, some general guidelines can be offered at this time.

Recommendation

- 23. That the following principles be used to establish the Program's policies on permitted uses:
 - Only agricultural uses (e.g. barns, one residence, and help houses without a severance) and agriculturally-related uses (e.g., valueadded processing activities located on the farm and fruitstands) should be permitted.
 - The uses which are permitted must comply with the Regional, local municipal, Niagara Escarpment Plans, and Provincial policies and plans.
 - No severances, except for farm amalgamations and minor boundary adjustments, should be permitted.
 - The activities permitted should have a minimal impact on the quantity or quality of the soil (e.g. no topsoil stripping).

H.4 Length of the Easement

Two options exist for the length of the easement. The easement can be for a limited period of time such as 25 years (a term easement). Alternately, the easement can run for an unlimited period or in perpetuity (a perpetual easement). A comparison of the advantages and disadvantages of term and perpetual easements are discussed below.

Option 1: Term Easements

Advantages

 Less costly to purchase because the value of a term easement is only a percentage of the value of a perpetual easement. Thus, more land could be protected than if perpetual easements are purchased.

Disadvantages

- Land speculation would not be discouraged.
- Protection of the resource is less permanent than in a perpetual easement.
- Less money is provided to the grower in this Option.

Disadvantages

 The price of farmland is less likely to be closer to its agricultural value if easements are acquired only for a limited period of time.

Option 2: Perpetual Easements

Advantages

- More permanent protection than under Option 1 (term easements).
- Provides more money to growers than Option 1.
- Farmland will more closely reflect its agricultural value than Option 1.

Disadvantages

 More expensive to purchase perpetual easements.

Conclusion

The Committee prefers perpetual easements because of greater permanency of protection and positive economic impact (more money for growers and land prices which are more consistent with their agricultural value).

Recommendation

24. That agricultural easements be purchased in perpetuity on eligible tender fruitlands.

H.5 Reversion Clause

Some agricultural easement programs have reversion clauses which establish the conditions under which landowners can buy back the easements on their property. Those programs which have reversion clauses make the release from perpetual easements very difficult (Coughlin and Keene, 1981). The requirements may include: the passage of a considerable length of time (e.g. 25 years), proof that the land is no longer viable for farming, multiple agency approvals, referendums, public hearings, and/or petitions (American Farmland Trust, 1990; Coughlin and Keene, 1981; Daniels, 1991b; Lembeck, 1989; Rose, 1984; Schnidman et al., 1990 and Thompson, 1989). In addition, the landowner must buy the easement

back at its current appraised value. (American Farmland Trust, 1990; Schnidman et al., 1990; Daniels, 1991b and Thompson, 1989).

Conclusion

The Committee agreed that the reversion clause should be very restrictive if the Program's goal of preserving the tender fruitlands is to be achieved. However, as with any legal agreement, the easement can be amended or terminated by mutual agreement.

Recommendation

25. That the only release from an easement other than by mutual agreement be through government expropriation for an essential public use.

CHAPTER V: RELATIONSHIP TO GOVERNMENTS' OTHER ACTIVITIES AND PROGRAMS

"While incentives, land use controls, and comprehensive growth management programs are important for any farmland protection program, other measures are necessary to maintain the economic viability of agriculture."

(Rose, 1984): 594.

Agricultural easements have a direct relationship to the existing land use planning framework for Ontario. Perpetual agricultural easements support the Provincial Food Land Guidelines by increasing the permanency of farmland protection where the resource is unique and very limited. With its financial incentives, an agricultural easement program would be much more acceptable to Niagara tender fruit growers and local politicians than strict Provincial land use policies.

Second, agricultural easements are compatible with existing Federal and Provincial farm financial assistance programs. Establishing an agricultural easement program does not negate the need for supportive senior government policies and programs which are necessary for the future competitiveness of the industry. Senior governments can have a direct positive or negative effect both on the preservation of the resource base and the economics of farming.

A. THE NEED FOR MUTUALLY SUPPORTIVE GOVERNMENT POLICIES AND PROGRAMS

All four levels of government have a role to play in ensuring the long-term protection of the Niagara tender fruitlands. Each government must establish mutually supportive policies and programs if these unique lands are to be preserved.

From radio towers to highway construction (e.g. QEW) to local works yards, governments' activities can take prime agricultural land out of production. While essential public uses must sometimes be located in agricultural areas, in other cases, sites which are less suitable for agriculture can be substituted.

Supportive land use policies are essential to an agricultural easement program. At the Provincial level, there is a need for a coordinated interministerial review process for government activities which affect Provincially-significant agricultural lands. Regionally, the economic assistance policies for tender fruit growers, which are part of proposed Regional Policy Plan Amendment 60, should be withdrawn once Regional Niagara Council is satisfied that adequate economic assistance has been provided to Niagara tender fruit growers.

Governments through a wide range of agricultural and nonagricultural policies (e.g., trade, pesticides, wage rates, and labour laws) and programs also can have a profound effect on the economics of farming. It is recognized that the industry, foreign governments and international bodies (e.g. GATT) also have an important role to play. Nevertheless, the Federal and Provincial Governments can do much to foster a climate of competitiveness.

Supportive government programs, in concert with industry initiatives, are needed in several key areas. These areas include:

- crop insurance

- marketing initiatives

- research and development of value-added products

- input costs, and

- a fair trading environment.

Conclusion

An agricultural easement program fits well into the existing agricultural land use planning framework for Ontario. At the same time, it would complement the Federal and Provincial farm safety net system. However, this Program does not diminish the need for either agricultural land use policies or the need for acceptable farm incomes.

Recommendations

- 26. That all levels of government consider the effects of their activities and programs on Provincially-significant agricultural lands, such as the Niagara tender fruitlands, before decisions are taken.
- 27. That Regional Niagara Council withdraw the economic assistance policies for tender fruit growers which are part of proposed Regional Policy Plan Amendment 60.
- 28. That Niagara's tender fruit industry and the Provincial Government develop a comprehensive strategy to increase the competitiveness of the industry.

CHAPTER VI: PROGRAM IMPLEMENTATION

The following steps are necessary in order to achieve the objective of Program implementation in 1993.

- Presentation of the Report to the Minister of Agriculture and Food, the Honourable Elmer Buchanan.
- Review and report by the Minister of Agriculture and Food to the Provincial Cabinet.
- Approval of the Niagara Agricultural Easement Program by the Provincial Cabinet.
- 4. Endorsement of the Program concept by the Niagara North Federation of Agriculture, the Niagara South Federation of Agriculture, and the Ontario Tender Fruit Producers' Marketing Board.
- Approval by Regional Niagara of Regional staffing and/or funding for the Program.
- 6. Withdrawal by Regional Niagara Council of the tender fruit assistance policies in proposed Regional Policy Plan Amendment 60.
- 7. An agreement with the Board of Directors of the Ontario Heritage Foundation (OHF) and the Ministry of Culture and Communications that the OHF will serve as the interim administrator of the Program.
- 8. Appointment of members to the Niagara Agricultural Easement Committee by the governments contributing to the Program's cost.
- 9. Commencement of the Program.
- Purchase of first agricultural easements early in 1993 or sooner.

Additional, necessary steps to start in 1993 are:

- 11. Creation of a Niagara Trust Fund to stimulate private sector funding of the Niagara Agricultural Easement Program.
- 12. Establishment of an interministerial review process at the Provincial level to consider the effects of government activities and programs on Provinciallysignificant agricultural lands.

 Preparation of competitiveness strategy for the tender fruit industry.

Recommendation

29. That the thirteen steps outlined in Chapter VI be followed in order to implement the Niagara Agricultural Easement Program in 1993 or sooner.

CHAPTER VII: CONCLUSIONS

The agricultural easement concept is applicable to Ontario. Agricultural easements are not synonymous with the purchase of development rights. Currently, easements are being acquired for a variety of public purposes under the Ontario Heritage Act.

The benefits of an agricultural easement program outweigh its disadvantages. However with its cost, agricultural easements only can be used selectively. The costs of not implementing an agricultural easement program in Niagara are substantial.

The Niagara Fruit Belt is a unique resource in Ontario and indeed all of Canada. However, Ontario's tender fruitlands are under continuous development pressure and Niagara tender fruit growers are experiencing economic hardship. These important lands are worthy of the extra long-term protection provided by an easement program.

This Committee has recommended an implementable Agricultural Easement Program which will:

- sustain Ontario's unique and irreplaceable Niagara tender fruitlands for future generation,
- contribute to the long-term viability of Niagara's tender fruit industry, and
- reinforce governments' actions and programs supporting the preservation of these unique agricultural lands.



APPENDIX I

Terms of Reference Subcommittee to Study Conservation Easements

PURPOSE

The subcommittee will examine and report on the use of conservation easements as a tool to protect agricultural lands. Inherent in this review will be the development of potential conservation easement programs for the Government's consideration, including a pilot for Niagara Region.

COMMITTEE STRUCTURE

The Ministry of Agriculture and Food will establish and chair the subcommittee as part of the consultation exercise to develop an agricultural land protection program. The subcommittee will function as a working group of the larger external committee in the consultation exercise. However this does not preclude the government from initiating a conservation easement program prior to the finalization of an agricultural land protection program.

Representatives from the following organizations have been invited to participate on the subcommittee:

- Niagara Region
- Niagara North Federation of Agriculture
- Niagara South Federation of Agriculture
- Tender Fruit Growers Marketing Board
- Preservation of Agricultural Lands Society (PALS)
- Ministry of Culture and Communications
- Ministry of Municipal Affairs
- Ministry of Agriculture and Food.

ISSUES TO ADDRESS

The subcommittee's work will address several issues related to the evaluation of conservation easements as a land protection tool. In addition to general issues of feasibility, appropriateness and legal implications of conservation easements in the Ontario context, the subcommittee will focus on conservation easements for agricultural land <u>vis-a-vis</u> the following topics.

Effectiveness

The subcommittee will examine conservation easement programs in Ontario and in other jurisdictions, and evaluate their effectiveness. Based on this review, they should determine the conditions necessary to maximize the effectiveness of a conservation easement program in Ontario. This component of the review should answer the question, "could a conservation easement program be effective in protecting the agricultural land base?".

Impacts

Establishing a conservation easement program for agriculture could have impacts on the achievement of other goals or the administration of other programs. The subcommittee will explore possible impacts on such matters as the land use planning system, resource management, the farm economy and land values. This component of the review should answer the question, "what are the positive and negative impacts of establishing a conservation easement program for agricultural land, or in other words, what are the pros and cons?".

Legal

Relevant legal questions in establishing a conservation easement program for agricultural land need to be addressed. For example, are there any legal impediments, as they may relate to Canada's position with regard to the Free Trade Agreement or GATT?

Funding

Given that any conservation easement program for agricultural land will involve the outlay of substantial amounts of capital or benefits, the subcommittee needs to address the questions, "how much money is needed and where does this money come from?".

Administration

Were the Province to implement an agricultural land conservation easement program, it would require some sort of administrative system. The subcommittee should provide options on how to administer a program. Discussion of administration will need to address the roles and responsibilities of each level of government, and the rights of non-governmental organizations to enter easement agreements. The subcommittee should also report on how to maintain consistency in easement agreements, and how to enforce them. In addition, eligibility and evaluation criteria need to be developed for assessing the purchase of potential easements.

Options

In light of varying interest and cost implications, there needs to be a discussion of how a conservation easement program for agricultural land could be selectively scoped. There may be geographic options (e.g. Niagara, or urban separator), commodity options (e.g. specialty crops), or broader options (e.g. resource lands).

METHODOLOGY

It is suggested that the best way to evaluate the many facets of an agricultural conservation easement program for Ontario is to try to actually develop a program. Given the interest in Niagara for such a program, it is proposed that a conservation easement program be designed on a Niagara basis. This would include the development of a number of options on the components, administration, and funding of such a program.

Material should also be collected on existing conservation easement programs in Ontario and other jurisdictions.

The subcommittee will need to develop its own workplan.

TIMING

The subcommittee will complete its work during the broader public consultation. It will report back to the Minister and the external committee by the end of June.

PRODUCT

The end product will be a report that will address the issues raised above, as well as any other issues and questions identified by the subcommittee itself. Where appropriate, detailed program options should be included in the report. Such options should be in sufficient detail to be readily implemented.



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